

The background is a dense collage of hand-drawn business diagrams and charts in blue ink on a light green surface. It includes various elements such as: a hierarchical tree diagram with a box labeled 'PLAN'; a line graph with a peak and a dip; a circular diagram with arrows pointing outwards; a bar chart with four bars of increasing height; a pie chart with three segments; a network diagram with five nodes; a globe; a lightbulb icon; and several arrows pointing in different directions. Text labels like 'IDEA', 'MAX', 'PROGRESS', 'MANAGEMENT', 'OPTIONS', 'NEXT', 'SUCCESS', and 'GO!!' are scattered throughout the collage.

Strategic Planning at MPERS Phase 1 – Identify Strategic Issues

Governance Committee Discussion Document

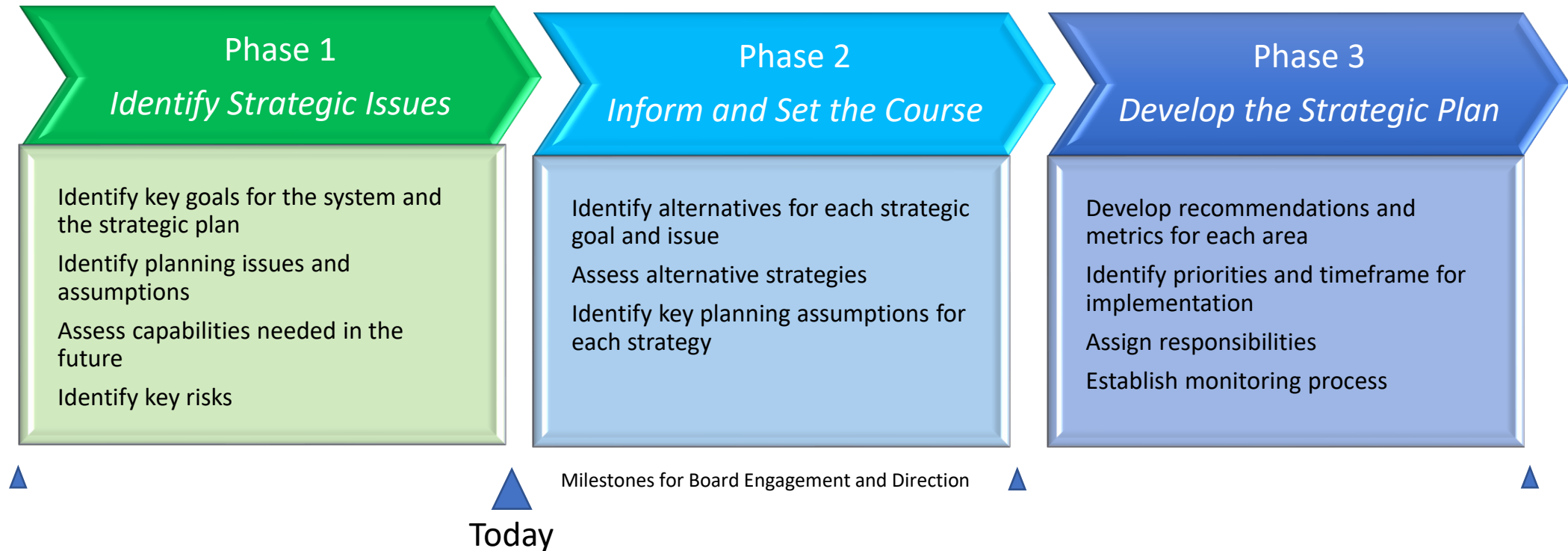
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Funston Advisory Services LLC

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Strategic Planning Process

Board/Committee Engagement: Involved at the conclusion of each planning phase to provide input and guidance



Goal for today is to discuss identified planning issues and determine what is vitally important.

Process for Phase 1

MPERS' Strategic Planning Survey

- 8 Trustee Responses
- 17 Staff Responses
- Comments on mission statement
- Strengths/opportunities and threats/weaknesses
- Capabilities needed
- Planning issues to address

Issues Review and Prioritization by Staff

- Full staff discussion of issues and priorities
- Leadership team developed prioritized list of planning issues
- Preliminary analysis of options available, least to most

Governance Committee and Board Discussion/Direction

- Feedback from the survey
- Proposed simplification of mission statement
- Prioritized planning issues and alternatives to consider

Conclusions from the Survey

- Simplify the mission statement
- High degree of alignment among trustees and staff on strengths/opportunities for improvement and long-term external and internal issues:
 - Build on strengths
 - Strong, dedicated management and team/retain institutional knowledge
 - Showcase progress to date on funded status
 - Reinforce the benefits of defined benefits (members/legislature)/improve communications
- Improve
 - Cybersecurity
 - Succession/workforce/workplace planning to maintain institutional knowledge
 - Resilience to inevitable economic downturn and impact on funding
 - Proactive response to potential adverse legislation (e.g., DB vs. DC)
 - Technology (member services and investments)
- Evaluate cost-benefits:
 - Internal vs. external management
 - Facilities renovation vs. sale

MPERS Mission

Current: “At MPERS, our mission is simple: To provide a foundation for financial security to plan participants by delivering quality benefits and exceptional member service through professional plan administration and prudent management of assets, at a reasonable cost to the taxpayers of Missouri.”

Most comments from trustees advocated for a simpler statement:

Proposed: “Provide practical, reliable, and sustainable benefits for the lifetime of our members.”

The mission statement is supplemented by MPERS Core Values, which do not need to change:

- Our members are our number one focus...we work for them.
- Our goal is to provide exceptional service **always** no matter who is on the phone or sitting across from us.
- We strive to preserve, protect, and grow our assets.
- We are committed to the security and privacy of our members’ information.
- We make decisions in the best interest of our members based upon statutory guidance.
- We conduct business at a reasonable cost to the taxpayers of Missouri.

Key Capabilities Needed for the Future

- High quality, cost-effective member services
- Effective member communications
- Sophisticated, adaptable investment management team
- Accurate investment performance reporting with independent verification
- Asset-liability planning process with full board support
- Staff resourcing and retention strategies to ensure continuity of capabilities
- IT systems with highly-effective information security and access controls
- Proactive legislative advocacy program
- Engaged Board with consistent support

Planning Issues to Address

1. Funding policy
2. People issues
 - a. Succession planning
 - b. Investment staff resources
 - c. Incentive compensation (investment staff)
 - d. Benefits/operations staff
3. Systems
 - a. Investment infrastructure resources
 - b. Cyber resources
4. Customer and stakeholder engagement
5. Legislation
6. Facilities
7. Performance validation

1. Funding Policy

Background: The funded status is improving quickly due to the aggressive temporary policy. Any revisions to policy should provide a glide path to maintain progress and sufficient funding to continue progress into the future.

Options:

- a. Stay the course and let the policy play out as is.
- b. Evaluate the policy with next experience study after the end of Fiscal Year 2022; consider validity of actuarial assumptions at that time, per existing policy.
- c. Modify the policy now.

Pros and Cons: Making changes to the funding policy now could risk undoing the progress made. We are also in an unusual market environment with many unknowns. MPERS has a sound funding policy. Continuing under existing policy supports forward progress, allows the current economic environment to play out further, and provides an opportunity for formal analysis coincident with MPERS' next experience study in less than two years.

2a. People: Succession Planning

Background: MPERS has several individuals in key positions who are eligible to retire or will be eligible soon (within the next 5-6 years). Given MPERS' modest staffing resources, backup staff or staff who are eligible for internal advancement for most of these positions is limited at best and nonexistent at worst. As a result, plans need to be developed for addressing this expected turnover.

Options:

- a. Let things ride out and address turnover as it occurs with no planned replacements.
- b. Prepare plans for certain key positions and address remaining turnover as it occurs.
- c. Prepare plans for all positions to develop and maintain replacements for each position.

Pros and Cons: Not having staff with the right skills for most, if not all key positions, presents a risk. Having a well-reasoned plan to address anticipated turnover presents an opportunity to make transitions smoothly, if not seamlessly, with little or no interruption to operations with the potential to bring in new, fresh perspectives, which may improve the organization.

2b. People: Investment Staff Resources

Background: MPERS had unexpected turnover of investment staff over the past year that exposed vulnerabilities. With the upcoming retirement eligibility of the CIO, it is time to recognize a few changes that will necessary as a result of this transition. Under the current investment strategy, the need for dedicated asset class managers is apparent. As the fund size grows and as we have a shift in leadership, it is time to consider what appropriate staffing levels should be if we plan to continue to manage the fund in-house or consider alternative approaches.

Options:

- a. Maintain status quo with staffing level.
- b. Recognize potential staffing needs in the context of CIO transition.
- c. Weigh potential staffing needs in the context of CIO transition against internal versus external resources.
- d. Consider policy change regarding the investment administration function that supports greater flexibility with staffing resources.

Pros and Cons: Staying the course does not seem prudent given the overall expectation of excellence. A comprehensive outsourcing approach (outsourced CIO services) simplifies the staffing challenges for a small fund. However, the Board would lose internal expertise and rely completely on external resources. The value add by staff over the years has been significant. A hybrid approach (some resources retained in-house and some outsourced) could maintain internal expertise in certain areas and leverage external expertise in others. Whatever direction is taken, a new CIO will almost certainly function differently than that which we are accustomed. We have an opportunity to consider greater flexibility for investment staff resources that could further reinforce the ability of the program to realize greater performance and reduce costs.

2c. People: Incentive Compensation (Investment Staff)

Background: It is time to review the compensation policy applicable to investment staff, which can be a controversial topic. On the one hand, the incentive associated with earning additional compensation when meeting and exceeding goals is a powerful tool. On the other hand, it can be difficult for the Board to support incentive compensation on top of pay levels that relative to traditional state positions is high. None of MPERS' local peers utilize incentive compensation any longer. The current policy is also detrimental to new hires in the short term due to the full fiscal year employment requirement before earning additional pay.

Options:

- a. Status quo.
- b. Modified status quo, make minor improvements to policy.
- c. Eliminate incentive compensation program.

Pros and Cons: Existing policy has served MPERS well by providing staff real incentive to advance the investment function consistent with other prominent public pension plans. As other investors become more sophisticated and savvier regarding governance, incentive compensation becomes harder to earn and less attractive. MPERS next scheduled compensation study is set for 2024. Between now and then it would be wise to take a fresh look at this policy to be sure it supports attractive recruitment and retention efforts. A shift away from incentive compensation would require increases to base pay, however, that would not require a budget increase as we currently budget for full incentive compensation each year.

2d. People: Benefits/Operations Staff

Background: The lack of a dedicated HR position is a shortcoming for MPERS. With considerable turnover expected in the coming years, having dedicated staff to manage the transition of each position and the organization would present an opportunity for improvement. We are also expecting an increase in membership over the next decade that may precipitate the need for additional benefit staff.

Options:

- a. Status quo.
- b. Add human resources staff.
- c. Consider outside resource to address shortcomings.

Pros and Cons: MPERS human resource activities are inconsistent and limited. Considerable improvement could be realized with dedicated HR staff, but the size of the organization could limit the practicality.

3a. Systems and Tools: Investment Infrastructure Resources

Background: There is a shortfall in investment infrastructure resources, but we are not able to identify exactly what those needs are. In this case, it is difficult to know what you need if you have never had it. Public funds routinely share best practices so it a good time to visit a few successful plans to see what system resources are in place and would provide utility to MPERS.

Options:

- a. Status quo.
- b. Research alternative resources to determine fit and applicability.
 - a. Outsource systems and tools.
 - b. Selectively acquire needed tools and outsource others, as necessary.
 - c. Acquire and build internal investment infrastructure.

Pros and Cons: Existing resources are cumbersome and take precious staffing resources to manage. Becoming informed on best practice resources would allow for prudent decisions for improvements that will both manage staffing needs and risk management. This could be dependent upon the strategy for 2b.

3b. Systems and Tools: Cyber resources

Background: Cybersecurity is both a people and systems question. Currently, MPERS has no dedicated IT staff. We do utilize a modern pension database for plan administration through a third-party. A third-party IT resource is also used to manage day-to-day maintenance and troubleshooting.

Options:

- a. Status quo.
- b. Complete a cyber audit and determine organization's security position, then develop course of action.

Pros and Cons: The current framework for IT services is cost-effective but it does not provide dedicated resources focused on our exclusive needs and risks. A vulnerability/penetration audit should be completed to assess MPERS risks. From there, decisions could be made to either stay the course or to assess alternatives necessary to protect the organization and its members. Doing nothing could put the System at risk in this ever-changing cybersecurity world.

4. Customer and Stakeholder Engagement

Background: Significant progress in this area has been made in the last few years but it must continue to develop. MPERS' objective is to be recognized as a competent resource for retirement benefits and of course, all things MPERS. In addition, we want to be sure that the message our stakeholders receive is that this benefit is a benefit that should not be taken for granted and that significant changes to it, including closing of the plans, could be detrimental to future employees. The key stakeholders are members, legislators and elected officials, interest groups, and the public at large. These efforts are an inherent component to present practices and should be maintained as part of any future planning process to ensure our reputation and credibility are enhanced and maintained.

Options:

- a. Status quo.
- b. Document stakeholder engagement plans and monitor progress.
- c. Enhance present course with additional resources.

Pros and Cons: MPERS' communications have evolved slowly over the years but have become an integral part of daily operations. Current efforts have exhibited favorable results that support effective stakeholder engagement. This is not something that changes quickly but takes time to develop and cultivate. We are soundly following forward progress now. With continued support, existing resources are sufficient for the purpose.

5. Legislation

Background: Continue present strategy to “manage” risks and needs for legislative purposes through governmental consultant. Maintain effective relationships with the representative and senator assigned to the Board and keep lines of communication open with the governmental consultant.

Options:

- a. Status quo.
- b. Create legislative liaison as internal staff position.
- c. Eliminate governmental consultant.

Pros and Cons: Governmental consultants are not inexpensive but are less expensive than dedicated full-time staff. The consultant has a variety of relationships helpful to MPERS’ cause, which a dedicated staffer would have to develop from scratch. Furthermore, the workload for a dedicated staff person is hardly sufficient to merit a position. Eliminating the governmental consultant position could put MPERS at considerable risk with legislative proceedings and information.

6. Facilities

Background: MPERS' dated facility will soon require necessary updates that come with a significant cost, e.g., HVAC system. With that in mind, the building was placed on the market but did not receive any viewings. The for-sale posting was withdrawn after several months to complete the parking lot expansion associated with the purchase of the adjacent property at 605 Dix Road. Structurally, we have a sound building and are centrally located for staff and members.

Options:

- a. Status quo.
- b. Renovate.
- c. Sell.

Pros and Cons: The current condition and estimated value of the MPERS office has limited sale appeal based on the recent 10-month listing. Renovating the inefficient layout and dated or odd facilities (no internal stairway, three kitchens, small boardroom, etc.) would improve working conditions, staff connectivity and interaction, improve recruitment/retention, and advance building safety and accessibility. Selling would likely require accepting a price below the original cost of the building. Acquiring another facility would present a number of other considerations.

7. Performance Validation

Background: There is no formal performance validation for MPERS operations except for the annual financial audit, vital sign validation, and performance verification inherent with consultant relationships (e.g., NEPC verifies investment performance). Because MPERS is a small organization, no internal audit capabilities have been established.

Options:

- a. Status quo; continue annual financial audit and vital sign review.
- b. Develop internal audit position.
- c. Extend outside audit to verify key processes.

Pros and Cons: There are unclear threats and opportunities with this process. An outside auditor may not fully understand the processes he/she is hired to audit. Hiring an internal auditor for such a small system and with such diverse auditing needs could prove difficult – one individual may not have the necessary expertise our organization needs. It may also not provide enough work for a full-time position. Utilizing outside resources through the current audit process or otherwise, would provide an important advancement for performance validation that could evolve and expand as necessary until such time as an internal position is practical.

Next Steps

- Incorporate feedback from the Governance Committee
- Prepare revised presentation for Board discussion at February meeting
- Receive Board direction/validation on planning issues and options to consider